

BAD AXE PUBLIC SCHOOLS
BAD AXE, MICHIGAN
FINANCIAL REPORT WITH
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 27, 2006

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Bad Axe Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bad Axe Public Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Bad Axe Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bad Axe Public Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated July 27, 2006 on our consideration of the Bad Axe Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages II – VIII, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bad Axe Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf PC
LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

BAD AXE PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Bad Axe Public Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

BAD AXE PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

District Wide Financial Statements: (Continued)

These two statements report the Bad Axe Public Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2006 and 2005:

| | <u>NET ASSETS SUMMARY</u> | |
|--|---------------------------|---------------------|
| | <u>2006</u> | <u>2005</u> |
| <u>ASSETS</u> | | |
| Current Assets | \$9,137,784 | \$10,764,390 |
| Non-Current Assets | <u>11,091,853</u> | <u>9,962,570</u> |
| <u>TOTAL ASSETS</u> | <u>\$20,229,637</u> | <u>\$20,726,960</u> |
| <u>LIABILITIES</u> | | |
| Current Liabilities | \$1,574,636 | \$1,580,757 |
| Long-Term Liabilities | <u>14,354,341</u> | <u>14,739,546</u> |
| Total Liabilities | \$15,928,977 | \$16,320,303 |
| <u>NET ASSETS</u> | | |
| Invested in Capital Assets - Net of Related Debt | 2,258,026 | 1,971,290 |
| Restricted - Debt Service | 368,535 | 351,197 |
| Unrestricted | <u>1,674,099</u> | <u>2,084,170</u> |
| Total Net Assets | <u>\$4,300,660</u> | <u>\$4,406,657</u> |
| <u>TOTAL LIABILITIES AND NET ASSETS</u> | <u>\$20,229,637</u> | <u>\$20,726,960</u> |

BAD AXE PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2006 and 2005, the District wide results of operations were:

| | <u>2006</u> | <u>2005</u> |
|---|---------------------------|---------------------------|
| <u>REVENUES</u> | | |
| <u>General Revenues:</u> | | |
| Property Taxes Levied for General Operations | \$1,343,502 | \$1,284,554 |
| Property Taxes Levied for Debt Service | 894,506 | 703,160 |
| State of Michigan Unrestricted Foundation Aid | 7,253,542 | 7,406,615 |
| Other General Revenues | <u>322,395</u> | <u>113,064</u> |
| Total General Revenues | \$9,813,945 | \$9,507,393 |
| <u>Operating Grants:</u> | | |
| Federal | 577,808 | 587,982 |
| State of Michigan | 525,000 | 515,472 |
| Other Operating Grants | <u>380,468</u> | <u>370,282</u> |
| Total Operating Grants | \$1,483,276 | \$1,473,736 |
| <u>Charges for Services:</u> | | |
| Food Service | 229,399 | 239,882 |
| Athletics | 114,649 | 162,422 |
| Other Charges for Services | <u>56,081</u> | <u>74,121</u> |
| Total Charges for Services | \$400,129 | \$476,425 |
| Total Revenues | \$11,697,350 | \$11,457,554 |
| <u>EXPENSES</u> | | |
| Instruction & Instructional Support | 6,656,299 | 7,248,930 |
| Support Services | 3,330,228 | 3,627,945 |
| Community Services | 27,008 | 23,548 |
| Food Service | 562,375 | 519,241 |
| Athletics | 349,706 | 408,108 |
| Interest on Long-Term Debt | 587,184 | 303,877 |
| Depreciation | <u>290,547</u> | <u>285,981</u> |
| Total Expenses | \$11,803,347 | \$12,417,630 |
| <u>(DECREASE) IN NET ASSETS</u> | (\$105,997) | (\$960,076) |
| <u>BEGINNING NET ASSETS</u> | <u>4,406,657</u> | <u>5,366,733</u> |
| <u>ENDING NET ASSETS</u> | <u><u>\$4,300,660</u></u> | <u><u>\$4,406,657</u></u> |

BAD AXE PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2006, the District's Total Net Assets decreased by \$105,997 to a total of \$4,300,660. This represents a 2% decrease over the prior year. The largest portion of the net assets are the districts investment in capital assets – net of related debt. These assets increased by \$286,736 for the year due to new purchases and payments of debt exceeded depreciation. The districts Unrestricted Net Assets decreased by \$410,071 during the year and the restricted portion of the net assets increased by \$17,338. The restricted Net Assets consist of the Investment in Capital Assets-net of related Debt, the restricted debt retirement funds that may only be used to pay bonded debt. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall expenses exceeded its revenues for the year by \$105,997. Total revenues increased by \$239,796 or 2% over last years amounts. The major change were increases in property taxes. Expenses decreased during the year by \$614,283 or 5% over last years amounts. Major changes were a reduction in personnel costs.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund decreased by \$297,243 during the year with the decrease coming primarily from a reduction in cash. Revenues for the year decreased by \$90,897, primarily from decreases in state aid. Expenditures and other financing uses for the year decreased by \$816,224, primarily due to reductions in personnel costs. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)
The State of Michigan aid, unrestricted, is determined with the following variables:
 - a. State of Michigan State Aid Act per student foundation allowance
 - b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
 - c. The District's non-homestead levy
2. Per Student Foundation Allowance:
Annually, the State of Michigan establishes the per student foundation allowance. The Bad Axe Public Schools foundation allowance was \$6,875 per student for the 2005-2006 school year.
3. Student Enrollment:
The District's student enrollment for the fall count of 2005-2006 was 1,279 students. A decrease of 45 students from the prior year.

BAD AXE PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2005-2006 fiscal year was \$1,339,362. An increase of \$56,879 from the prior year.

Capital Projects Fund

The district's Capital Projects fund balance decreased by \$1,201,506 due to construction beginning during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

| <u>Fiscal Year</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | Variance Original & Final <u>Budget %</u> | Variance Actual & Final <u>Budget %</u> |
|---------------------|------------------------|---------------------|--------------------|---|---|
| Revenue | \$9,638,232 | \$9,984,579 | \$9,977,993 | 0.07 | 0.07 |
| Expenditures | 9,761,015 | 10,275,253 | 10,275,392 | 0.00 | 0.00 |
| <u>TOTAL</u> | <u>(\$122,783)</u> | <u>(\$290,674)</u> | <u>(\$297,399)</u> | | |

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Bad Axe Public Schools amends its budget during the school year. The June, 2006 budget amendment was the final budget for the fiscal year. There was a variation between the original and final budget. The original budget was prepared before the passage of the Michigan State Aid Act and therefore had lower revenue estimates.

BAD AXE PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

| | Principal Balance 7-01-05 | Increases 6-30-06 | Principal Payments 6-30-06 | Principal Balance 6-30-06 |
|---|---------------------------------|----------------------|----------------------------------|---------------------------------|
| Durant Bonds | \$52,250 | \$0 | \$3,959 | \$48,291 |
| Bonds Payable | 14,810,000 | 0 | 355,000 | 14,455,000 |
| Compensated Absences | 236,255 | 13,941 | 0 | 250,196 |
| <u>Total Long-Term Bond Obligations</u> | <u>\$15,098,505</u> | <u>\$13,941</u> | <u>\$358,959</u> | <u>\$14,753,487</u> |

B. Capital Assets

The district's net investment in capital assets decreased by \$250,709 during the fiscal year. This can be summarized as follows:

| | Balance 7-1-05 | Additions | Deductions | Balance 6-30-06 |
|--------------------------------------|--------------------|--------------------|-------------|--------------------|
| Capital Assets | \$16,202,055 | \$156,524 | (\$126,952) | \$16,231,627 |
| Less: Accumulated Depreciation | (6,239,485) | (407,233) | 126,952 | (6,519,766) |
| <u>Net Investment Capital Outlay</u> | <u>\$9,962,570</u> | <u>(\$250,709)</u> | <u>\$0</u> | <u>\$9,711,861</u> |

Significant additions were the purchase of two buses.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

* Foundation Allowance

The foundation allowance will be \$7,100 per pupil for the 06-07 fiscal year based on information received from various educational organizations such as Michigan Association of School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards as well as discussions local state representatives. The political debate regarding the funding of public education, the current economic climate in the State of Michigan and the gubernatorial election will all affect this estimate before the final foundation allowance is known.

* Retirement Rates

The continuing cost of health insurance to current and potential retirees continues to drive the rate increases the Michigan School Personnel Retirement System recommends to the legislature for approval. The rate is anticipated to increase to 17.74% in 06-07 from 16.34% in 05-06. It is forecast, based on actuarial assumptions that these types of increases will occur until 2012, when the largest bulk of the current "baby boomer" generation enters retirement.

BAD AXE PUBLIC SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET (Continued)

- * The Bad Axe Schools 2006/2007 adopted budget is as follows:

| | |
|---------------------------|---------------------------|
| <u>REVENUE</u> | \$10,257,484 |
| <u>EXPENDITURES</u> | <u>10,392,603</u> |
| <u>NET (UNDER) BUDGET</u> | <u><u>(\$135,119)</u></u> |

The adopted budget reflects the commitment of the Board of Education and Administration to maintain our current instructional programs and staffing levels. It is recognized that the use of unrestricted fund balance can not continue long term and the Board of Education, Administration and members of the various collective bargaining groups are beginning to look at other ways to help reduce fringe benefit costs, specifically health care, to allow the district to maintain its programs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Bad Axe Public Schools.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| <u>ASSETS</u> | |
| <u>CURRENT ASSETS</u> | |
| Cash and Cash Equivalents | \$2,874,205 |
| Investments | 4,788,422 |
| Accounts Receivable | 29,189 |
| Taxes Receivable | 1,658 |
| Due from Student Groups | 15,069 |
| Due from Other Governmental Units | 1,416,488 |
| Inventory | 6,153 |
| Prepaid Expenses | 6,600 |
| Total Current Assets | <u>\$9,137,784</u> |
| <u>NON-CURRENT ASSETS</u> | |
| Construction in Progress | 1,379,992 |
| Capital Assets | 16,231,627 |
| Less: Accumulated Depreciation | (6,519,766) |
| Total Noncurrent Assets | <u>\$11,091,853</u> |
| <u>TOTAL ASSETS</u> | <u><u>\$20,229,637</u></u> |
| <u>LIABILITIES</u> | |
| <u>CURRENT LIABILITIES</u> | |
| Accounts Payable | \$58,973 |
| Accrued Expenses | 391,315 |
| Salaries Payable | 661,596 |
| Deferred Revenue | 63,606 |
| Current Portion of Long-Term Obligations | 399,146 |
| Total Current Liabilities | <u>\$1,574,636</u> |
| <u>NON-CURRENT LIABILITIES</u> | |
| Noncurrent Portion of Long-Term Obligations | <u>14,354,341</u> |
| <u>TOTAL LIABILITIES</u> | <u>\$15,928,977</u> |
| <u>NET ASSETS</u> | |
| <u>NET ASSETS</u> | |
| Invested in Capital Assets, Net of Related Debt | 2,258,026 |
| Restricted for: | |
| Debt Retirement | 368,535 |
| Unrestricted | <u>1,674,099</u> |
| <u>TOTAL NET ASSETS</u> | <u><u>\$4,300,660</u></u> |
| <u>TOTAL LIABILITIES AND NET ASSETS</u> | <u><u>\$20,229,637</u></u> |

See accompanying notes to the basic financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

| <u>FUNCTIONS/PROGRAMS</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue & Change in Net Assets</u> |
|---|---------------------|---------------------------------|---|---|
| | | <u>Charges For Services</u> | <u>Operating Grants and Contributions</u> | |
| Governmental Activities: | | | | |
| Instruction | \$6,656,299 | \$4,175 | \$1,190,380 | (\$5,461,744) |
| Support Services | 3,330,228 | 26,712 | 13,921 | (3,289,595) |
| Community Services | 27,008 | 25,194 | 0 | (1,814) |
| Food Service | 562,375 | 229,399 | 278,975 | (54,001) |
| Athletics | 349,706 | 114,649 | 0 | (235,057) |
| Interest - Long-Term Obligations | 587,184 | 0 | 0 | (587,184) |
| Depreciation - Unallocated | 290,547 | 0 | 0 | (290,547) |
| <u>TOTALS</u> | <u>\$11,803,347</u> | <u>\$400,129</u> | <u>\$1,483,276</u> | <u>(\$9,919,942)</u> |
| | | | | |
| General Revenues: | | | | |
| Taxes: | | | | |
| Property Taxes, Levied for General Purposes | | | | 2,238,008 |
| State Aid | | | | 7,253,542 |
| Investment Earnings | | | | 241,712 |
| Miscellaneous | | | | 80,683 |
| Total General Revenues and Transfers | | | | <u>\$9,813,945</u> |
| Change in Net Assets | | | | (\$105,997) |
| | | | | |
| Net Assets - Beginning | | | | <u>4,406,657</u> |
| <u>Net Assets - Ending</u> | | | | <u>\$4,300,660</u> |

See accompanying notes to the basic financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

| | General Fund | 2005 Capital Projects | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|-----------------------------|--------------------------------|--------------------------------|
| <u>ASSETS</u> | | | | |
| Cash and Cash Equivalents | \$1,539,422 | \$886,511 | \$448,272 | \$2,874,205 |
| Investments | 5,469 | 4,782,953 | 0 | 4,788,422 |
| Accounts Receivable | 29,189 | 0 | 0 | 29,189 |
| Taxes Receivable | 1,316 | 0 | 342 | 1,658 |
| Due from Other Funds | 39,212 | 0 | 18,050 | 57,262 |
| Due from Other Governmental Units | 1,412,044 | 0 | 4,444 | 1,416,488 |
| Inventory | 0 | 0 | 6,153 | 6,153 |
| Prepaid Expenses | 6,600 | 0 | 0 | 6,600 |
| <u>TOTAL ASSETS</u> | <u>\$3,033,252</u> | <u>\$5,669,464</u> | <u>\$477,261</u> | <u>\$9,179,977</u> |
| <u>LIABILITIES</u> | | | | |
| Accounts Payable | \$58,419 | \$0 | \$554 | \$58,973 |
| Due to Other Funds | 18,050 | 0 | 24,143 | 42,193 |
| Accrued Expenses | 286,572 | 0 | 8,857 | 295,429 |
| Salaries Payable | 656,925 | 0 | 4,671 | 661,596 |
| Deferred Revenue | 9,229 | 0 | 54,377 | 63,606 |
| Total Liabilities | \$1,029,195 | \$0 | \$92,602 | \$1,121,797 |
| <u>FUND BALANCES</u> | | | | |
| Reserved For: | | | | |
| Inventory | 6,600 | 0 | 6,153 | 12,753 |
| Debt Retirement | 0 | 0 | 368,535 | 368,535 |
| Capital Projects | 0 | 5,669,464 | 0 | 5,669,464 |
| Unreserved: | | | | |
| Undesignated, Reported In: | | | | |
| General Fund | 1,997,457 | 0 | 0 | 1,997,457 |
| School Service Funds | 0 | 0 | 9,971 | 9,971 |
| Total Fund Balances | <u>\$2,004,057</u> | <u>\$5,669,464</u> | <u>\$384,659</u> | <u>\$8,058,180</u> |
| <u>TOTAL LIABILITIES AND FUND BALANCES</u> | <u>\$3,033,252</u> | <u>\$5,669,464</u> | <u>\$477,261</u> | <u>\$9,179,977</u> |

See accompanying notes to the basic financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2006

| | | |
|--|--------------|---------------------|
| Total Governmental Fund Balances: | | \$8,058,180 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$16,231,627 and the accumulated depreciation is \$6,519,766 | | 9,711,861 |
| Construction in Progress | | 1,379,992 |
| Accrued Interest on Long-Term Debt | | (95,886) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of: | | |
| Bonds Payable | \$14,503,291 | |
| Compensated Absences Payable | 250,196 | |
| Total Long-Term Liabilities | | <u>(14,753,487)</u> |
| <u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u> | | <u>\$4,300,660</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

| | General Fund | 2005 Capital Projects | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|-----------------------------|--------------------------------|--------------------------------|
| <u>REVENUES</u> | | | | |
| Local Sources | \$1,481,901 | \$178,486 | \$1,256,153 | \$2,916,540 |
| State Sources | 7,750,867 | 0 | 27,675 | 7,778,542 |
| Federal Sources | 320,765 | 0 | 257,043 | 577,808 |
| Total Revenues | <u>\$9,553,533</u> | <u>\$178,486</u> | <u>\$1,540,871</u> | <u>\$11,272,890</u> |
| <u>EXPENDITURES</u> | | | | |
| Current: | | | | |
| Instruction | 6,656,299 | 0 | 0 | 6,656,299 |
| Student Services | 282,537 | 0 | 0 | 282,537 |
| Instructional Support | 289,797 | 0 | 0 | 289,797 |
| General Administration | 411,944 | 0 | 0 | 411,944 |
| School Administration | 757,317 | 0 | 0 | 757,317 |
| Business Administration | 6,785 | 0 | 0 | 6,785 |
| Operation & Maintenance of Plant | 1,104,207 | 0 | 0 | 1,104,207 |
| Transportation | 453,537 | 0 | 0 | 453,537 |
| Community Services | 27,008 | 0 | 0 | 27,008 |
| Food Service | 0 | 0 | 887,671 | 887,671 |
| Debt Service | 0 | 0 | 899,766 | 899,766 |
| Capital Outlay | | | | |
| Land Improvements | 0 | 168,482 | 0 | 168,482 |
| Building Improvements | 0 | 479,028 | 0 | 479,028 |
| Other | 0 | 388,671 | 0 | 388,671 |
| Equipment | 0 | 343,811 | 0 | 343,811 |
| Total Expenditures | <u>\$9,989,431</u> | <u>\$1,379,992</u> | <u>\$1,787,437</u> | <u>\$13,156,860</u> |
| Excess (Deficiency) of Revenues (Under) Expenditures | (\$435,898) | (\$1,201,506) | (\$246,566) | (\$1,883,970) |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Transfers from (to) Other Funds | (211,550) | 0 | 211,550 | 0 |
| Other Transfers | 350,049 | 0 | 0 | 350,049 |
| Total Other Financing Sources (Uses) | <u>\$138,499</u> | <u>\$0</u> | <u>\$211,550</u> | <u>\$350,049</u> |
| Net Change in Fund Balance | (\$297,399) | (\$1,201,506) | (\$35,016) | (\$1,533,921) |
| <u>FUND BALANCE - BEGINNING</u> | <u>2,301,456</u> | <u>6,870,970</u> | <u>419,675</u> | <u>9,592,101</u> |
| <u>FUND BALANCE - ENDING</u> | <u>\$2,004,057</u> | <u>\$5,669,464</u> | <u>\$384,659</u> | <u>\$8,058,180</u> |

See accompanying notes to the basic financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

| | |
|--|---------------------------|
| Total net change in fund balances - governmental funds | (\$1,533,921) |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation in the current period exceeded capital outlay. | (250,709) |
| Construction in Progress | 1,379,992 |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds. | 358,959 |
| (Increase) in Compensated Absences | (13,941) |
| Change in accrued interest on long-term liabilities | <u>(46,377)</u> |
| <u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u> | <u><u>(\$105,997)</u></u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
AS OF JUNE 30, 2006

| | Trust & Agency | Private Purpose Trusts | Total |
|--|-------------------|------------------------------|------------------|
| <u>ASSETS</u> | | | |
| Cash and Cash Equivalents | \$116,031 | \$285,100 | \$401,131 |
| Investments | 0 | 46,666 | 46,666 |
| Total Assets | <u>\$116,031</u> | <u>\$331,766</u> | <u>\$447,797</u> |
| <u>LIABILITIES</u> | | | |
| Due to Other Funds | 15,069 | 0 | 15,069 |
| Due to Student Groups | 100,962 | 0 | 100,962 |
| Total Liabilities | <u>\$116,031</u> | <u>\$0</u> | <u>\$116,031</u> |
| <u>NET ASSETS - HELD IN TRUST FOR OTHERS</u> | <u>\$0</u> | <u>\$331,766</u> | <u>\$331,766</u> |

See accompanying notes to the basic financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2006

| | Private Purpose Trusts |
|---------------------------------------|------------------------------|
| <u>REVENUE</u> | |
| Interest | \$10,756 |
| Donations | 19,566 |
| Total Revenue | <u>\$30,322</u> |
| <u>EXPENDITURES</u> | |
| Scholarships | <u>37,900</u> |
| <u>CHANGE IN NET ASSETS</u> | (\$7,578) |
| <u>NET ASSETS - BEGINNING OF YEAR</u> | <u>339,344</u> |
| <u>NET ASSETS - END OF YEAR</u> | <u><u>\$331,766</u></u> |

See accompanying notes to the basic financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

| | Budgeted Amounts | | | Variance With |
|--|------------------|-------------|-------------|---------------|
| | Original | Final | Actual | Final Budget |
| <u>REVENUES</u> | | | | |
| Local Sources | \$1,461,184 | \$1,487,943 | \$1,481,901 | (\$6,042) |
| State Sources | 7,431,813 | 7,751,228 | 7,750,867 | (361) |
| Federal Sources | 318,710 | 318,683 | 320,765 | 2,082 |
| Total Revenues | \$9,211,707 | \$9,557,854 | \$9,553,533 | (\$4,321) |
| <u>EXPENDITURES</u> | | | | |
| Current: | | | | |
| Instruction | 6,246,663 | 6,675,818 | 6,656,299 | 19,519 |
| Student Services & Instructional Support | 634,290 | 582,800 | 572,334 | 10,466 |
| General Administration | 416,411 | 417,866 | 411,944 | 5,922 |
| School & Business Administration | 713,112 | 746,837 | 764,102 | (17,265) |
| Operation & Maintenance of Plant | 1,011,698 | 1,098,702 | 1,104,207 | (5,505) |
| Transportation | 413,104 | 445,500 | 453,537 | (8,037) |
| Community Services | 28,137 | 27,580 | 27,008 | 572 |
| Total Expenditures | \$9,463,415 | \$9,995,103 | \$9,989,431 | \$5,672 |
| Excess of Revenues Over Expenditures | (\$251,708) | (\$437,249) | (\$435,898) | \$1,351 |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Transfers to Other Funds | 128,925 | 146,575 | 138,499 | (8,076) |
| Net Change in Fund Balance | (\$122,783) | (\$290,674) | (\$297,399) | (\$6,725) |
| <u>FUND BALANCE - BEGINNING</u> | | | 2,301,456 | |
| <u>FUND BALANCE - ENDING</u> | | | \$2,004,057 | |

See accompanying notes to the basic financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Bad Axe Public Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are value at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are value at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> |
|----------------------------|--|
| Buildings and Improvements | 20 – 50 years |
| Furniture and Equipment | 5 – 10 years |
| Vehicles and Buses | 5 years |

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles generally requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the District for these budgetary funds were adopted to the activity level.

During the year ended June 30, 2006, the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

Budgets were not adopted for the capital projects fund or the 2003 debt retirement fund for the year ended June 30, 2006.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had the following investments.

| Investment Type | Fair value | Weighted Average Maturity (Years) | Standard & Poor's Rating | % |
|--|---------------------|--|---|----------------|
| U.S. Agency Notes and Bonds | \$4,782,953 | 0.1550 | AAA | 98.92% |
| Investment Pools - Mutual Funds | 46,666 | 3.4482 | N/A | 0.97% |
| MILAF External Investment Pool - MICMS | 1,858 | 0.0027 | AAAm | 0.04% |
| MILAF External Investment Pool - MIMAX | 3,611 | 0.0027 | AAAm | 0.07% |
| Total fair value | <u>\$ 4,835,088</u> | | | <u>100.00%</u> |
| Portfolio weighted average maturity | | <u>0.1866</u> | | |

1 day maturity equals 0.0027, one year equals 1.00.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

4) DEPOSITS AND INVESTMENTS (Continued)

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in U.S. Treasuries which represents 99% of the District's total investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$2,477,881 of the District's bank balance of \$3,258,889 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the investment in investment pools – mutual funds of \$46,666 the District has a custodial credit risk exposure of \$46,666 because the related securities are uninsured, unregistered and held by the District's brokerage firm which is also the counterparty for these particular securities.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

| | |
|---|-------------------------|
| Deposits – Including Fiduciary Funds of \$401,131 | \$ 3,275,336 |
| Investments | <u>4,835,088</u> |
| <u>TOTAL</u> | <u>\$ 8,110,424</u> |

The above amounts are reported in the financial statements as follows:

| | |
|--|-------------------------|
| Cash Private Purpose Trust Fund | \$ 285,100 |
| Cash Agency Fund | 116,031 |
| Cash – District Wide | 2,874,205 |
| Investments – Private Purpose Trust Fund | 46,666 |
| Investments – District Wide | <u>4,788,422</u> |
| <u>TOTAL</u> | <u>\$ 8,110,424</u> |

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2006, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

6) RECEIVABLES (Continued)

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

| <u>GOVERNMENTAL ACTIVITIES</u> | <u>AMOUNT</u> |
|--------------------------------------|---------------------|
| State Aid | \$ 1,411,283 |
| Federal Grants | 5,205 |
| <u>TOTAL GOVERNMENTAL ACTIVITIES</u> | <u>\$ 1,416,488</u> |

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2006, the School District had \$1,604 in estimated claims in conjunction with the program.

8) SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit. The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2006.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

| | <u>BALANCE</u> <u>JULY 1, 2005</u> | <u>ADDITIONS</u> | <u>DEDUCTIONS</u> | <u>BALANCE</u> <u>JUNE 30, 2006</u> |
|--------------------------------|---------------------------------------|--------------------|--------------------|--|
| <u>GOVERNMENTAL ACTIVITIES</u> | | | | |
| Buildings and Improvements | \$13,290,275 | \$0 | \$0 | \$13,290,275 |
| Land Improvements | 1,260,013 | 0 | 0 | 1,260,013 |
| Equipment and Furniture | 509,784 | 0 | 0 | 509,784 |
| Vehicles | 1,141,983 | 156,524 | (126,952) | 1,171,555 |
| Totals at Historical Cost | <u>\$16,202,055</u> | <u>\$156,524</u> | <u>(\$126,952)</u> | <u>\$16,231,627</u> |
| Less: Accumulated Depreciation | | | | |
| Buildings and Improvements | (4,548,223) | (281,274) | 0 | (4,829,497) |
| Land Improvements | (362,396) | (31,921) | 0 | (394,317) |
| Equipment and Furniture | (333,709) | (41,672) | 0 | (375,381) |
| Vehicles | (995,157) | (52,366) | 126,952 | (920,571) |
| Total Accumulated Depreciation | <u>(\$6,239,485)</u> | <u>(\$407,233)</u> | <u>\$126,952</u> | <u>(\$6,519,766)</u> |
| <u>GOVERNMENTAL ACTIVITIES</u> | | | | |
| <u>CAPITAL ASSETS - NET</u> | <u>\$9,962,570</u> | <u>(\$250,709)</u> | <u>\$0</u> | <u>\$9,711,861</u> |

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

| | |
|-----------------------------------|-------------------|
| Support Services | \$ 92,276 |
| Food Service | 1,091 |
| Athletics | 23,319 |
| Unallocated | 290,547 |
| <u>TOTAL DEPRECIATION EXPENSE</u> | <u>\$ 407,233</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2006 were \$133,335 and the School District received a dividend refund of \$62,946.

11) LONG-TERM LIABILITIES

A) Prior Period Defeasance

On May 1, 2003, the District defeased certain obligation bonds by placing the proceeds of the new general obligation bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the District's government-wide financial statements. The balance of the bonds as of June 30, 2006 was \$7,505,000.

B) 2005 School Building and Site Bonds

Bad Axe Public Schools has issued School Building and Site Bonds dated June 28, 2005, in the amount of \$6,985,000, bearing interest at rates varying from 3.00% to 4.50% per annum. These bonds will be used for school building and site purposes. The balance of the bonds as of June 30, 2006 was \$6,950,000.

C) Durant Resolution Package Bonds

Bad Axe Public Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$81,784 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2006 was \$48,291.

D) Debt service requirements at June 30, 2006, were as follows:

| <u>YEAR ENDED</u> | | | |
|-------------------|---------------------|--------------------|---------------------|
| <u>JUNE 30,</u> | <u>BONDS</u> | <u>INTEREST</u> | <u>TOTAL</u> |
| 2007 | \$399,146 | \$576,909 | \$976,055 |
| 2008 | 424,345 | 566,488 | 990,833 |
| 2009 | 439,552 | 553,681 | 993,233 |
| 2010 | 479,768 | 539,552 | 1,019,320 |
| 2011 | 499,995 | 523,724 | 1,023,719 |
| 2012-2016 | 2,785,485 | 2,348,824 | 5,134,309 |
| 2017-2021 | 3,380,000 | 1,749,301 | 5,129,301 |
| 2022-2026 | 3,495,000 | 991,567 | 4,486,567 |
| 2027-2030 | 2,600,000 | 284,050 | 2,884,050 |
| <u>TOTAL</u> | <u>\$14,503,291</u> | <u>\$8,134,096</u> | <u>\$22,637,387</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

11) LONG-TERM LIABILITIES (Continued)

E) Changes in Long-Term Liabilities

| | Balance July 1, 2005 | Additions | Deductions | Balance June 30, 2006 | Amount Due in One Year |
|--|-------------------------|-----------------|------------------|--------------------------|---------------------------|
| <u>Governmental Activities:</u> | | | | | |
| Durant Bonds | \$52,250 | \$0 | \$3,959 | \$48,291 | \$4,146 |
| Bonds Payable | 14,810,000 | 0 | 355,000 | 14,455,000 | 395,000 |
| Compensated Absences | 236,255 | 13,941 | 0 | 250,196 | 0 |
| <u>Total Governmental Activities</u> | <u>\$15,098,505</u> | <u>\$13,941</u> | <u>\$358,959</u> | <u>\$14,753,487</u> | <u>\$399,146</u> |

The payment dates of sick days payable are undeterminable. The interest expenditures on long-term obligations for the year were \$539,311.

12) INTERFUND BALANCES

Interfund balances at June 30, 2006 consisted of the following:

| DUE FROM | | | |
|---------------------|-----------------|-------------------|-----------------|
| | GENERAL FUND | ATHLETICS FUND | TOTAL |
| | | | |
| DUE TO General Fund | \$0 | \$18,050 | \$18,050 |
| Food Service Fund | 24,143 | 0 | 24,143 |
| Trust & Agency Fund | 15,069 | 0 | 15,069 |
| <u>TOTAL</u> | <u>\$39,212</u> | <u>\$18,050</u> | <u>\$57,262</u> |

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

13) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following:

| TRANSFERS FROM | |
|-----------------------------------|------------------|
| | GENERAL FUND |
| TRANSFERS TO Special Revenue Fund | <u>\$211,550</u> |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

14) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the years ended June 30, 2006, 2005 and 2004 were \$997,847, \$950,257 and \$832,608, respectively.

Postemployment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS pension plan discussed above.

15) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty, theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. The pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from significant adverse financial impact.

16) GOVERNMENTAL REGULATION

Substantially all of the school district's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the school district expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the school district. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

17) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2006, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

OTHER SUPPLEMENTAL
INFORMATION

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

| | Special Revenue Funds | Debt Service Funds | Total Other Governmental Funds |
|--|-----------------------------|--------------------------|---|
| <u>ASSETS</u> | | | |
| Cash and Cash Equivalents | \$80,079 | \$368,193 | \$448,272 |
| Taxes Receivable | 0 | 342 | 342 |
| Due from Other Funds | 18,050 | 0 | 18,050 |
| Due from Other Governmental Units | 4,444 | 0 | 4,444 |
| Inventory | 6,153 | 0 | 6,153 |
| <u>TOTAL ASSETS</u> | <u>\$108,726</u> | <u>\$368,535</u> | <u>\$477,261</u> |
| <u>LIABILITIES</u> | | | |
| Accounts Payable | \$554 | \$0 | \$554 |
| Due to Other Funds | 24,143 | 0 | 24,143 |
| Accrued Expenses | 8,857 | 0 | 8,857 |
| Salaries Payable | 4,671 | 0 | 4,671 |
| Deferred Revenue | 54,377 | 0 | 54,377 |
| Total Liabilities | \$92,602 | \$0 | \$92,602 |
| <u>FUND BALANCES</u> | | | |
| Reserved For: | | | |
| Inventory | 6,153 | 0 | 6,153 |
| Debt Retirement | 0 | 368,535 | 368,535 |
| Unreserved: | | | |
| Undesignated, Reported In: | | | |
| School Service Fund | 9,971 | 0 | 9,971 |
| Total Fund Balances | \$16,124 | \$368,535 | \$384,659 |
| <u>TOTAL LIABILITIES AND FUND BALANCES</u> | <u>\$108,726</u> | <u>\$368,535</u> | <u>\$477,261</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

| | Special Revenue Funds | Debt Funds | Total Other Governmental Funds |
|--|-----------------------------|------------------|---|
| <u>REVENUES</u> | | | |
| Local Sources | \$344,792 | \$911,361 | \$1,256,153 |
| State Sources | 21,932 | 5,743 | 27,675 |
| Federal Sources | 257,043 | 0 | 257,043 |
| Total Revenues | <u>\$623,767</u> | <u>\$917,104</u> | <u>\$1,540,871</u> |
| <u>OTHER FINANCING SOURCES</u> | <u>211,550</u> | <u>0</u> | <u>211,550</u> |
| Total Revenues & Other Financing Sources | <u>\$835,317</u> | <u>\$917,104</u> | <u>\$1,752,421</u> |
| <u>EXPENDITURES</u> | | | |
| Food Service & Athletics | 887,671 | 0 | 887,671 |
| Debt Service | 0 | 899,766 | 899,766 |
| Total Expenditures | <u>\$887,671</u> | <u>\$899,766</u> | <u>\$1,787,437</u> |
| Net Change in Fund Balance | (\$52,354) | \$17,338 | (\$35,016) |
| <u>NET ASSETS - BEGINNING</u> | <u>68,478</u> | <u>351,197</u> | <u>419,675</u> |
| <u>NET ASSETS - ENDING</u> | <u>\$16,124</u> | <u>\$368,535</u> | <u>\$384,659</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
AS OF JUNE 30, 2006

| | Food Services Fund | Athletic Fund | Total |
|--|--------------------------|------------------|------------------|
| <u>ASSETS</u> | | | |
| Cash and Cash Equivalents | \$41,198 | \$38,881 | \$80,079 |
| Due from Other Funds | 0 | 18,050 | 18,050 |
| Due from Other Governmental Units | 4,444 | 0 | 4,444 |
| Inventory | 6,153 | 0 | 6,153 |
| <u>TOTAL ASSETS</u> | <u>\$51,795</u> | <u>\$56,931</u> | <u>\$108,726</u> |
| <u>LIABILITIES</u> | | | |
| Accounts Payable | \$0 | \$554 | \$554 |
| Due to Other Funds | 24,143 | 0 | 24,143 |
| Accrued Expenses | 6,861 | 1,996 | 8,857 |
| Salaries Payable | 0 | 4,671 | 4,671 |
| Deferred Revenue | 4,667 | 49,710 | 54,377 |
| Total Liabilities | \$35,671 | \$56,931 | \$92,602 |
| <u>FUND BALANCES</u> | | | |
| Fund Balance - Reserved for Inventory | 6,153 | 0 | 6,153 |
| Fund Balance - Unreserved and Undesignated | 9,971 | 0 | 9,971 |
| Total Fund Balance | \$16,124 | \$0 | \$16,124 |
| <u>TOTAL LIABILITIES AND FUND BALANCES</u> | <u>\$51,795</u> | <u>\$56,931</u> | <u>\$108,726</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

| | Food Services Fund | Athletic Fund | Total |
|--|--------------------------|------------------|------------------|
| <u>REVENUES</u> | | | |
| <u>Local Sources</u> | | | |
| Cafeteria Sales | \$229,399 | \$0 | \$229,399 |
| Athletic Activities | 0 | 114,649 | 114,649 |
| Earnings on Investments and Deposits | 287 | 188 | 475 |
| Other Local Revenues | 269 | 0 | 269 |
| Total Local Sources | <u>\$229,955</u> | <u>\$114,837</u> | <u>\$344,792</u> |
| <u>State Sources</u> | | | |
| State Reimbursements | 21,932 | 0 | 21,932 |
| <u>Federal Sources</u> | | | |
| Federal Reimbursements | 219,928 | 0 | 219,928 |
| Commodities | 37,115 | 0 | 37,115 |
| Total Federal Sources | <u>\$257,043</u> | <u>\$0</u> | <u>\$257,043</u> |
| Total Revenues | <u>\$508,930</u> | <u>\$114,837</u> | <u>\$623,767</u> |
| <u>OTHER FINANCING SOURCES</u> | | | |
| Transfers from General Fund | 0 | 211,550 | 211,550 |
| Total Revenues & Other Financing Sources | <u>\$508,930</u> | <u>\$326,387</u> | <u>\$835,317</u> |
| <u>EXPENDITURES</u> | | | |
| Salaries - Professional | 0 | 174,133 | 174,133 |
| Salaries - Non-Professional | 137,205 | 0 | 137,205 |
| Insurances | 81,176 | 9,110 | 90,286 |
| Fica, Retirement, Etc. | 34,095 | 32,814 | 66,909 |
| Purchased Services | 10,959 | 251 | 11,210 |
| Supplies and Materials | 290,097 | 109,749 | 399,846 |
| Capital Outlay | 3,174 | 330 | 3,504 |
| Other | 4,578 | 0 | 4,578 |
| Total Expenditures | <u>\$561,284</u> | <u>\$326,387</u> | <u>\$887,671</u> |
| <u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u> | (\$52,354) | \$0 | (\$52,354) |
| <u>FUND BALANCE - BEGINNING OF YEAR</u> | <u>68,478</u> | <u>0</u> | <u>68,478</u> |
| <u>FUND BALANCE - END OF YEAR</u> | <u>\$16,124</u> | <u>\$0</u> | <u>\$16,124</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
COMBINING BALANCE SHEET
DEBT RETIREMENT FUNDS
AS OF JUNE 30, 2006

| | 2003 Debt Retirement | 2005 Debt Retirement | Durant Debt Fund | Total |
|---|----------------------------|----------------------------|------------------------|------------------|
| <u>ASSETS</u> | | | | |
| Cash and Cash Equivalents | \$351,106 | \$17,087 | \$0 | \$368,193 |
| Taxes Receivable | 280 | 62 | 0 | 342 |
| <u>TOTAL ASSETS</u> | <u>\$351,386</u> | <u>\$17,149</u> | <u>\$0</u> | <u>\$368,535</u> |
| <u>FUND BALANCES</u> | | | | |
| Fund Balance - Reserved for Debt Retirement | <u>\$351,386</u> | <u>\$17,149</u> | <u>\$0</u> | <u>\$368,535</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DEBT RETIREMENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

| | 2003 Debt <u>Retirement</u> | 2005 Debt <u>Retirement</u> | Durant Debt <u>Fund</u> | Total After Interfund <u>Eliminations</u> |
|---|-----------------------------------|-----------------------------------|-------------------------------|---|
| <u>REVENUES</u> | | | | |
| Local Sources | | | | |
| Property Taxes | \$732,695 | \$161,811 | \$0 | \$894,506 |
| Earnings on Investments and Deposits | 15,515 | 1,340 | 0 | 16,855 |
| Total Local Sources | \$748,210 | \$163,151 | \$0 | \$911,361 |
| State Sources | 0 | 0 | 5,743 | 5,743 |
| Total Revenues | \$748,210 | \$163,151 | \$5,743 | \$917,104 |
| <u>OTHER FINANCING SOURCES</u> | | | | |
| Transfers from Other Debt Funds | 0 | 129,718 | 0 | 0 |
| Total Revenues and Other Financing Sources | \$748,210 | \$292,869 | \$5,743 | \$917,104 |
| <u>EXPENDITURES</u> | | | | |
| Principal | 320,000 | 35,000 | 3,959 | 358,959 |
| Interest | 297,053 | 240,474 | 1,784 | 539,311 |
| Other | 1,250 | 246 | 0 | 1,496 |
| Total Expenditures | \$618,303 | \$275,720 | \$5,743 | \$899,766 |
| <u>OTHER FINANCING USES</u> | | | | |
| Transfers to Other Debt Funds | 129,718 | 0 | 0 | 0 |
| Total Expenditures and Other Financing Uses | \$748,021 | \$275,720 | \$5,743 | \$899,766 |
| <u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</u> | | | | |
| | \$189 | \$17,149 | \$0 | \$17,338 |
| <u>FUND BALANCE - BEGINNING OF YEAR</u> | 351,197 | 0 | 0 | 351,197 |
| <u>FUND BALANCE - END OF YEAR</u> | <u>\$351,386</u> | <u>\$17,149</u> | <u>\$0</u> | <u>\$368,535</u> |

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
GENERAL FUND
SCHEDULES OF REVENUES AND OTHER FINANCING SOURCES - BUDGET TO ACTUAL
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

| | <u>2006</u> | <u>2005</u> |
|---|---------------------------|----------------------------|
| <u>REVENUES FROM</u> | | |
| <u>Local Sources</u> | | |
| Property Taxes | \$1,343,502 | \$1,284,554 |
| Earnings on Investments and Deposits | 45,896 | 41,015 |
| Other Local Revenues | 92,503 | 111,373 |
| Total Revenues from Local Sources | <u>\$1,481,901</u> | <u>\$1,436,942</u> |
| <u>State Sources</u> | | |
| State Aid - Membership - Sec. 20 | 7,253,542 | 7,406,615 |
| At Risk | 248,544 | 253,070 |
| Special Education | 239,180 | 215,129 |
| Advanced & Acc Learning | 0 | 185 |
| Driver Education | 0 | 3,153 |
| Vocational Education | 1,423 | 3,665 |
| Durant | 8,178 | 8,178 |
| MI Intergr. Learning | 0 | 4,748 |
| Court Placed | 0 | (3,444) |
| Total Revenues from State Sources | <u>\$7,750,867</u> | <u>\$7,891,299</u> |
| <u>Federal Sources</u> | | |
| Title I | 204,968 | 227,336 |
| Title V | 0 | 3,971 |
| Special Education | 1,901 | 0 |
| School Health | 0 | 1,000 |
| Technology Literacy Challenge | 3,824 | 5,778 |
| Improving Teacher Quality | 79,474 | 76,868 |
| Grants from ISD | 30,598 | 34,561 |
| Total Revenues from Federal Sources | <u>\$320,765</u> | <u>\$349,514</u> |
| Total Revenues | <u>\$9,553,533</u> | <u>\$9,677,755</u> |
| <u>OTHER FINANCING SOURCES</u> | | |
| County Special Education Tax | 338,767 | 331,725 |
| Transfers from Other Governmental Units | 41,701 | 37,241 |
| Other Transfers | 32,372 | 0 |
| Sale of School Property | 11,620 | 22,169 |
| Total Other Financing Sources | <u>\$424,460</u> | <u>\$391,135</u> |
| <u>TOTAL REVENUES AND OTHER</u> <u>FINANCING SOURCES</u> | <u><u>\$9,977,993</u></u> | <u><u>\$10,068,890</u></u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
GENERAL FUND
SCHEDULES OF EXPENDITURES AND OTHER FINANCING USES - BUDGET TO ACTUAL
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

| <u>INSTRUCTION</u> | <u>2006</u> | <u>2005</u> |
|-----------------------------|--------------------|--------------------|
| <u>BASIC PROGRAMS</u> | | |
| <u>Elementary</u> | | |
| Salaries - Professional | \$608,238 | \$710,584 |
| Salaries - Non-Professional | 88,255 | 102,550 |
| Insurances | 203,378 | 206,122 |
| Fica, Retirement, Etc. | 167,419 | 173,352 |
| Purchased Services | 8,483 | 11,592 |
| Supplies and Materials | 22,779 | 75,937 |
| Capital Outlay | 530 | 6,195 |
| Total Elementary | <u>\$1,099,082</u> | <u>\$1,286,332</u> |
| <u>Intermediate</u> | | |
| Salaries - Professional | 832,410 | 1,068,759 |
| Salaries - Non-Professional | 28,840 | 31,809 |
| Insurances | 196,754 | 169,784 |
| Fica, Retirement, Etc. | 201,641 | 222,422 |
| Purchased Services | 8,773 | 11,142 |
| Supplies and Materials | 18,051 | 62,351 |
| Capital Outlay | 0 | 11,481 |
| Total Intermediate | <u>\$1,286,469</u> | <u>\$1,577,748</u> |
| <u>Junior High</u> | | |
| Salaries - Professional | 837,263 | 858,210 |
| Salaries - Non-Professional | 19,895 | 39,859 |
| Insurances | 178,507 | 191,385 |
| Fica, Retirement, Etc. | 200,968 | 197,598 |
| Purchased Services | 9,787 | 13,446 |
| Supplies and Materials | 34,295 | 31,099 |
| Capital Outlay | 0 | 41,721 |
| Total Junior High | <u>\$1,280,715</u> | <u>\$1,373,318</u> |
| <u>High School</u> | | |
| Salaries - Professional | 1,123,987 | 1,071,649 |
| Salaries - Non-Professional | 32,351 | 33,230 |
| Insurances | 222,376 | 230,756 |
| Fica, Retirement, Etc. | 268,649 | 244,103 |
| Purchased Services | 23,472 | 25,153 |
| Supplies and Materials | 55,200 | 59,129 |
| Capital Outlay | 0 | 5,765 |
| Total High School | <u>\$1,726,035</u> | <u>\$1,669,785</u> |
| Total Basic Programs | <u>\$5,392,301</u> | <u>\$5,907,183</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN

GENERAL FUND

SCHEDULES OF EXPENDITURES AND OTHER FINANCING USES - BUDGET TO ACTUAL
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

| | 2006 | 2005 |
|--------------------------------|-------------|-------------|
| <u>INSTRUCTION</u> (Continued) | | |
| <u>ADDED NEEDS</u> | | |
| <u>SPECIAL EDUCATION</u> | | |
| Salaries - Professional | \$434,144 | \$452,308 |
| Salaries - Non-Professional | 11,165 | 29,185 |
| Insurances | 108,873 | 103,111 |
| Fica, Retirement, Etc. | 106,783 | 108,596 |
| Purchased Services | 407 | 416 |
| Supplies and Materials | 2,276 | 3,356 |
| Total Special Education | \$663,648 | \$696,972 |
| <u>COMPENSATORY EDUCATION</u> | | |
| Salaries - Professional | 399,753 | 396,189 |
| Insurances | 32,349 | 54,108 |
| Fica, Retirement, Etc. | 95,659 | 89,518 |
| Purchased Services | 1,855 | 16,670 |
| Supplies and Materials | 7,397 | 10,556 |
| Total Compensatory Education | \$537,013 | \$567,041 |
| <u>VOCATIONAL EDUCATION</u> | | |
| Salaries - Professional | 27,562 | 35,962 |
| Salaries - Non-Professional | 0 | 20 |
| Insurances | 6,037 | 12,824 |
| Fica, Retirement, Etc. | 6,632 | 8,044 |
| Purchased Services | 6,697 | 7,756 |
| Supplies and Materials | 15,252 | 12,085 |
| Capital Outlay | 1,157 | 1,043 |
| Total Vocational Education | \$63,337 | \$77,734 |
| Total Added Needs | \$1,263,998 | \$1,341,747 |
| <u>Total Instruction</u> | \$6,656,299 | \$7,248,930 |
| <u>SUPPORT SERVICES</u> | | |
| <u>STUDENT SERVICES</u> | | |
| Salaries - Professional | 182,788 | 228,470 |
| Salaries - Non-Professional | 16,975 | 16,445 |
| Insurances | 32,410 | 29,350 |
| Fica, Retirement, Etc. | 46,801 | 56,208 |
| Purchased Services | 1,694 | 1,297 |
| Supplies and Materials | 1,869 | 3,251 |
| Total Student Services | \$282,537 | \$335,021 |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
GENERAL FUND
SCHEDULES OF EXPENDITURES AND OTHER FINANCING USES - BUDGET TO ACTUAL
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

| | <u>2006</u> | <u>2005</u> |
|---|--------------------|--------------------|
| <u>SUPPORT SERVICES (Continued)</u> | | |
| <u>INSTRUCTIONAL STAFF</u> | | |
| Salaries - Professional | \$115,256 | \$152,146 |
| Salaries - Non-Professional | 54,481 | 83,226 |
| Insurances | 48,054 | 55,170 |
| Fica, Retirement, Etc. | 39,983 | 52,247 |
| Purchased Services | 15,558 | 48,234 |
| Supplies and Materials | 16,465 | 24,592 |
| Total Instructional Staff | <u>\$289,797</u> | <u>\$415,615</u> |
| <u>GENERAL ADMINISTRATION</u> | | |
| Salaries - Professional | 195,910 | 179,073 |
| Salaries - Non-Professional | 47,890 | 56,737 |
| Insurances | 58,071 | 44,305 |
| Fica, Retirement, Etc. | 51,980 | 48,287 |
| Purchased Services | 33,110 | 50,928 |
| Supplies and Materials | 7,693 | 15,118 |
| Capital Outlay | 980 | 1,146 |
| Other | 16,310 | 8,431 |
| Total General Administration | <u>\$411,944</u> | <u>\$404,025</u> |
| <u>SCHOOL ADMINISTRATION</u> | | |
| Salaries - Professional | 330,618 | 341,046 |
| Salaries - Non-Professional | 158,595 | 157,352 |
| Insurances | 124,613 | 112,386 |
| Fica, Retirement, Etc. | 113,265 | 108,313 |
| Purchased Services | 11,363 | 19,197 |
| Supplies and Materials | 3,013 | 3,589 |
| Capital Outlay | 12,030 | 0 |
| Other | 3,820 | 4,558 |
| Total School Administration | <u>\$757,317</u> | <u>\$746,441</u> |
| <u>BUSINESS ADMINISTRATION</u> | | |
| Other | 6,785 | 21,474 |
| <u>OPERATION AND MAINTENANCE OF PLANT</u> | | |
| Salaries - Professional | 46,716 | 45,437 |
| Salaries - Non-Professional | 323,877 | 313,410 |
| Insurances | 167,894 | 149,867 |
| Fica, Retirement, Etc. | 88,492 | 80,231 |
| Purchased Services | 187,581 | 187,160 |
| Supplies and Materials | 281,431 | 253,637 |
| Capital Outlay | 8,216 | 78,324 |
| Total Operation and Maintenance of Plant | <u>\$1,104,207</u> | <u>\$1,108,066</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN

GENERAL FUND

SCHEDULES OF EXPENDITURES AND OTHER FINANCING USES - BUDGET TO ACTUAL

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

| | <u>2006</u> | <u>2005</u> |
|--|---------------------|---------------------|
| <u>SUPPORT SERVICES (Continued)</u> | | |
| <u>TRANSPORTATION</u> | | |
| Salaries - Non-Professional | \$200,400 | \$204,416 |
| Insurances | 115,119 | 120,594 |
| Fica, Retirement, Etc. | 49,706 | 45,827 |
| Purchased Services | 14,282 | 11,809 |
| Supplies and Materials | 72,748 | 69,845 |
| Capital Outlay | 1,096 | 75,362 |
| Other | 186 | 226 |
| Total Transportation | <u>\$453,537</u> | <u>\$528,079</u> |
| Total Support Services | \$3,306,124 | \$3,558,721 |
| <u>COMMUNITY SERVICES</u> | | |
| Salaries - Professional | 20,572 | 17,492 |
| Insurances | 141 | 306 |
| Fica, Retirement, Etc. | 4,867 | 3,924 |
| Purchased Services | 347 | 320 |
| Supplies and Materials | 1,081 | 1,506 |
| Total Community Services | <u>\$27,008</u> | <u>\$23,548</u> |
| Total Expenditures | \$9,989,431 | \$10,831,199 |
| <u>OTHER FINANCING USES</u> | | |
| Transfers to Other Funds | 211,550 | 222,207 |
| Other Transfers | 13,079 | 0 |
| Transfers to Other Districts | 61,332 | 38,210 |
| Total Other Financing Uses | <u>\$285,961</u> | <u>\$260,417</u> |
| <u>TOTAL EXPENDITURES AND OTHER FINANCING USES</u> | <u>\$10,275,392</u> | <u>\$11,091,616</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2006

| STUDENT ACTIVITY | Due To (From) Student Group July 1, 2005 | Receipts | Disbursements | Due To (From) Student Group June 30, 2006 |
|------------------------|--|-----------|---------------|---|
| <u>HIGH SCHOOL</u> | | | | |
| Academic Track | \$934 | \$0 | \$0 | \$934 |
| Annual | (3,742) | 20,131 | 16,389 | 0 |
| AP Government | 0 | 2,642 | 1,442 | 1,200 |
| Art Club | 902 | 50 | 0 | 952 |
| Band | 0 | 72 | 13 | 59 |
| Book Deposits | 5,906 | 1,414 | 533 | 6,787 |
| Cheerleading Uniforms | 1,542 | 0 | 0 | 1,542 |
| Class of 2000 | 1,446 | 0 | 0 | 1,446 |
| Class of 2001 | 712 | 0 | 712 | 0 |
| Class of 2002 | 661 | 0 | 0 | 661 |
| Class of 2003 | 131 | 0 | 0 | 131 |
| Class of 2004 | 1,998 | 0 | 0 | 1,998 |
| Class of 2005 | 1,127 | 0 | 399 | 728 |
| Class of 2006 | 1,286 | 14,421 | 14,788 | 919 |
| Class of 2007 | 3,974 | 4,560 | 4,702 | 3,832 |
| Class of 2008 | 989 | 3,941 | 1,956 | 2,974 |
| Class of 2009 | 3,194 | 2,908 | 2,263 | 3,839 |
| Class of 2010 | 3,948 | 44,197 | 45,067 | 3,078 |
| Class of 2011 | 0 | 8,302 | 3,952 | 4,350 |
| Community Asst | 1 | 0 | 0 | 1 |
| Computer Club | 643 | 0 | 0 | 643 |
| FFA | 2,274 | 0 | 0 | 2,274 |
| Forensics | 0 | 1,187 | 1,230 | (43) |
| French Club | 1,045 | 0 | 0 | 1,045 |
| Hatchet Fitness Club | 96 | 0 | 0 | 96 |
| Hatchet Hardware | 267 | 0 | 0 | 267 |
| INK. Inc. | 4 | 0 | 0 | 4 |
| Interest | 0 | 4,136 | 3,741 | 395 |
| Library Club | 3 | 0 | 0 | 3 |
| Lounge | 2,110 | 1,651 | 1,131 | 2,630 |
| Music Club | 861 | 3,527 | 3,074 | 1,314 |
| Musical | 10,560 | 7,462 | 6,402 | 11,620 |
| National Honor Society | 1,264 | 248 | 249 | 1,263 |
| Program Supplement | 8,294 | 15,967 | 21,361 | 2,900 |
| Quest | 35 | 0 | 0 | 35 |
| Quiz Bowl | 90 | 1,019 | 1,109 | 0 |
| SADD Chapter | 261 | 0 | 0 | 261 |
| Scholarship Red Wings | 0 | 500 | 0 | 500 |
| Science Club | 213 | 0 | 0 | 213 |
| Spanish Club | 2,232 | 0 | 58 | 2,174 |
| Speech Club | 323 | 0 | 0 | 323 |
| Student Council | 1,853 | 5,353 | 5,767 | 1,439 |
| Three-Act Play | 3,155 | 1,358 | 842 | 3,671 |
| Yearbook | 0 | 18,934 | 18,934 | 0 |
| Yellow Ribbon | 1,131 | 0 | 0 | 1,131 |
| Total High School | \$61,723 | \$163,980 | \$156,114 | \$69,589 |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2006

| STUDENT ACTIVITY | Due To (From) Student Group July 1, 2005 | Receipts | Disbursements | Due To (From) Student Group June 30, 2006 |
|--------------------------------------|--|------------------|------------------|---|
| <u>JUNIOR HIGH</u> | | | | |
| Band | \$0 | \$150 | \$150 | \$0 |
| Book Deposits | 3,223 | 79 | 647 | 2,655 |
| Cheerleaders | 20 | 280 | 0 | 300 |
| Journalism | 154 | 58 | 0 | 212 |
| Lounge | 12 | 1,621 | 1,316 | 317 |
| Quiz Bowl | 0 | 146 | 86 | 60 |
| Sixth Grade Band | 46 | 0 | 0 | 46 |
| Sixth Grade Computer | 689 | 0 | 53 | 636 |
| Student Council | 2,506 | 9,428 | 7,739 | 4,195 |
| Total Junior High | <u>\$6,650</u> | <u>\$11,762</u> | <u>\$9,991</u> | <u>\$8,421</u> |
| <u>INTERMEDIATE & ELEMENTARY</u> | | | | |
| Elementary & Intermediate Trip | 3,267 | 0 | 0 | 3,267 |
| Elem School Carnival | 1,873 | 1,714 | 1,699 | 1,888 |
| Equipment | 5,502 | 3,821 | 3,853 | 5,470 |
| Foster Grandparents | 5 | 0 | 0 | 5 |
| Friday Treat | 2,614 | 911 | 1,329 | 2,196 |
| Lounge - Elementary | 1,627 | 730 | 790 | 1,567 |
| Lounge - Intermediate | 81 | 458 | 438 | 101 |
| PTSA | 7,750 | 8,184 | 7,476 | 8,458 |
| Total Intermediate & Elementary | <u>\$22,719</u> | <u>\$15,818</u> | <u>\$15,585</u> | <u>\$22,952</u> |
| <u>TOTAL</u> | <u>\$91,092</u> | <u>\$191,560</u> | <u>\$181,690</u> | <u>\$100,962</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - BOARD CONTROLLED INTERNAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

| STUDENT ACTIVITY | Due To (From) Student Group July 1, 2005 | Receipts | Disbursements | Due To (From) Student Group June 30, 2006 |
|---------------------------------|--|-----------------|-----------------|---|
| <u>HIGH SCHOOL</u> | | | | |
| Art Fees | \$186 | \$780 | \$0 | \$966 |
| Assemblies | 2,518 | 1,476 | 3,023 | 971 |
| Book Store | 4,871 | 3,062 | 3,633 | 4,300 |
| Shop Fees | 1,234 | 8,561 | 8,520 | 1,275 |
| Total High School | <u>\$8,809</u> | <u>\$13,879</u> | <u>\$15,176</u> | <u>\$7,512</u> |
| <u>JUNIOR HIGH</u> | | | | |
| Art, Home Economics & Shop Fees | 208 | 0 | 0 | 208 |
| Bookstore | 986 | 148 | 410 | 724 |
| Calculator | 456 | 852 | 1,197 | 111 |
| Library | 756 | 1,412 | 2,124 | 44 |
| School Spirit | 1,660 | 1,214 | 1,523 | 1,351 |
| Total Junior High | <u>\$4,066</u> | <u>\$3,626</u> | <u>\$5,254</u> | <u>\$2,438</u> |
| <u>INTERMEDIATE</u> | | | | |
| Bookstore | 911 | 368 | 423 | 856 |
| Library | 25 | 0 | 0 | 25 |
| Total Intermediate | <u>\$936</u> | <u>\$368</u> | <u>\$423</u> | <u>\$881</u> |
| <u>ELEMENTARY</u> | | | | |
| Bookstore | 3,898 | 2,064 | 1,873 | 4,089 |
| Library | 149 | 0 | 0 | 149 |
| Total Elementary | <u>\$4,047</u> | <u>\$2,064</u> | <u>\$1,873</u> | <u>\$4,238</u> |
| <u>TOTAL</u> | <u>\$17,858</u> | <u>\$19,937</u> | <u>\$22,726</u> | <u>\$15,069</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

| | | |
|--------------------------------|-------------------------------------|------------------|
| <hr/> | | |
| | <u>ALLEN SCHOLARSHIP FUND</u> | |
| <u>BALANCE - JULY 1, 2005</u> | | \$5,116 |
| <u>REVENUE</u> | | |
| Interest | | 121 |
| <u>BALANCE - JUNE 30, 2006</u> | | <u>\$5,237</u> |
| <hr/> | | |
| | <u>BEACH SCHOLARSHIP FUND</u> | |
| <u>BALANCE - JULY 1, 2005</u> | | \$186,874 |
| <u>REVENUE</u> | | |
| Interest | | 5,775 |
| <u>EXPENDITURES</u> | | |
| Scholarship Awards | | 30,000 |
| <u>BALANCE - JUNE 30, 2006</u> | | <u>\$162,649</u> |
| <hr/> | | |
| | <u>GREENE SCHOLARSHIP FUND</u> | |
| <u>BALANCE - JULY 1, 2005</u> | | \$41,513 |
| <u>REVENUE</u> | | |
| Interest | | 1,690 |
| Donations | | 4,863 |
| Total Revenue | | \$6,553 |
| <u>EXPENDITURES</u> | | |
| Scholarship Awards | | 1,400 |
| <u>BALANCE - JUNE 30, 2006</u> | | <u>\$46,666</u> |
| <hr/> | | |
| | <u>GROOMBRIDGE SCHOLARSHIP FUND</u> | |
| <u>BALANCE - JULY 1, 2005</u> | | \$6,175 |
| <u>REVENUE</u> | | |
| Interest | | 278 |
| <u>EXPENDITURES</u> | | |
| Scholarship Awards | | 500 |
| <u>BALANCE - JUNE 30, 2006</u> | | <u>\$5,953</u> |
| <hr/> | | |
| | <u>IGNASH SCHOLARSHIP FUND</u> | |
| <u>BALANCE - JULY 1, 2005</u> | | \$7,536 |
| <u>REVENUE</u> | | |
| Interest | | 176 |
| <u>EXPENDITURES</u> | | |
| Scholarship Awards | | 500 |
| <u>BALANCE - JUNE 30, 2006</u> | | <u>\$7,212</u> |
| <hr/> | | |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

| <u>KASSERMAN SCHOLARSHIP FUND</u> | | |
|-----------------------------------|--|-----------------|
| <u>BALANCE - JULY 1, 2005</u> | | \$49,882 |
| <u>REVENUE</u> | | |
| Interest | | 1,713 |
| <u>EXPENDITURES</u> | | |
| Scholarship Awards | | <u>500</u> |
| <u>BALANCE - JUNE 30, 2006</u> | | <u>\$51,095</u> |
| <u>MARSH SCHOLARSHIP FUND</u> | | |
| <u>BALANCE - JULY 1, 2005</u> | | \$0 |
| <u>REVENUE</u> | | |
| Donations | | 5,800 |
| Interest | | <u>129</u> |
| Total Revenue | | \$5,929 |
| <u>EXPENDITURES</u> | | |
| Scholarship Awards | | <u>500</u> |
| <u>BALANCE - JUNE 30, 2006</u> | | <u>\$5,429</u> |
| <u>MORELL SCHOLARSHIP FUND</u> | | |
| <u>BALANCE - JULY 1, 2005</u> | | \$6,447 |
| <u>REVENUE</u> | | |
| Donations | | 303 |
| <u>EXPENDITURES</u> | | |
| Scholarship Awards | | <u>3,000</u> |
| <u>BALANCE - JUNE 30, 2006</u> | | <u>\$3,750</u> |
| <u>PANKRATZ SCHOLARSHIP FUND</u> | | |
| <u>BALANCE - JULY 1, 2005</u> | | \$21,892 |
| <u>REVENUE</u> | | |
| Interest | | 514 |
| <u>EXPENDITURES</u> | | |
| Scholarship Awards | | <u>1,000</u> |
| <u>BALANCE - JUNE 30, 2006</u> | | <u>\$21,406</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006

| <u>ROWLAND SCHOLARSHIP FUND</u> | | |
|------------------------------------|--|------------------|
| <u>BALANCE - JULY 1, 2005</u> | | \$0 |
| <u>REVENUE</u> | | |
| Interest | | 101 |
| Donations | | 4,600 |
| Total Revenue | | <u>\$4,701</u> |
| <u>BALANCE - JUNE 30, 2006</u> | | <u>\$4,701</u> |
| <u>STEINHARDT SCHOLARSHIP FUND</u> | | |
| <u>BALANCE - JULY 1, 2005</u> | | \$13,909 |
| <u>REVENUE</u> | | |
| Interest | | 259 |
| Donations | | 4,000 |
| Total Revenue | | <u>\$4,259</u> |
| <u>EXPENDITURES</u> | | |
| Scholarship Awards | | <u>500</u> |
| <u>BALANCE - JUNE 30, 2006</u> | | <u>\$17,668</u> |
| <u>ALL SCHOLARSHIP FUNDS</u> | | |
| <u>BALANCE - JUNE 30, 2006</u> | | <u>\$331,766</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2006

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$81,784

1998 DURANT RESOLUTION PACKAGE BONDS

| | PRINCIPAL REQUIREMENT | INTEREST RATE | INTEREST REQUIREMENT | TOTAL FISCAL YEAR REQUIREMENTS |
|--------------------------------|--------------------------|------------------|-------------------------|--------------------------------------|
| <u>PAYMENT DATE - MAY 15TH</u> | | | | |
| 2007 | \$4,146 | 4.761353% | \$1,596 | \$5,742 |
| 2008 | 4,345 | 4.761353% | 1,399 | 5,744 |
| 2009 | 4,552 | 4.761353% | 1,192 | 5,744 |
| 2010 | 4,768 | 4.761353% | 975 | 5,743 |
| 2011 | 4,995 | 4.761353% | 748 | 5,743 |
| 2012 | 20,003 | 4.761353% | 7,098 | 27,101 |
| 2013 | 5,482 | 4.761353% | 261 | 5,743 |
| <u>TOTAL</u> | <u>\$48,291</u> | | <u>\$13,269</u> | <u>\$61,560</u> |

2003 REFUNDING BONDS

| <u>DUE DATE</u> | <u>INTEREST RATE</u> | <u>PRINCIPAL REQUIREMENT</u> | <u>INTEREST PAYMENTS DUE</u> | | <u>TOTAL</u> |
|-----------------|--------------------------|----------------------------------|------------------------------|--------------------|---------------------|
| | | | <u>NOVEMBER 1</u> | <u>MAY 1</u> | |
| 2006-2007 | 2.50% | \$325,000 | \$145,326 | \$145,326 | \$615,652 |
| 2007-2008 | 3.00% | 335,000 | 141,264 | 141,264 | 617,528 |
| 2008-2009 | 3.25% | 345,000 | 136,239 | 136,239 | 617,478 |
| 2009-2010 | 3.75% | 360,000 | 130,633 | 130,632 | 621,265 |
| 2010-2011 | 3.50% | 370,000 | 124,557 | 124,558 | 619,115 |
| 2011-2012 | 3.50% | 385,000 | 118,083 | 118,082 | 621,165 |
| 2012-2013 | 3.65% | 400,000 | 111,345 | 111,345 | 622,690 |
| 2013-2014 | 3.80% | 415,000 | 104,045 | 104,045 | 623,090 |
| 2014-2015 | 3.90% | 430,000 | 96,160 | 96,160 | 622,320 |
| 2015-2016 | 4.00% | 450,000 | 87,775 | 87,775 | 625,550 |
| 2016-2017 | 4.00% | 465,000 | 78,775 | 78,775 | 622,550 |
| 2017-2018 | 4.10% | 485,000 | 69,475 | 69,475 | 623,950 |
| 2018-2019 | 4.20% | 505,000 | 59,532 | 59,533 | 624,065 |
| 2019-2020 | 4.25% | 530,000 | 48,927 | 48,928 | 627,855 |
| 2020-2021 | 4.35% | 550,000 | 37,665 | 37,665 | 625,330 |
| 2021-2022 | 4.40% | 570,000 | 25,703 | 25,702 | 621,405 |
| 2022-2023 | 4.50% | 585,000 | 13,163 | 13,162 | 611,325 |
| <u>TOTAL</u> | | <u>\$7,505,000</u> | <u>\$1,528,667</u> | <u>\$1,528,666</u> | <u>\$10,562,333</u> |

BAD AXE PUBLIC SCHOOLS - BAD AXE, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2006

DATE OF ISSUE - June 28, 2005

Original amount of issue - \$6,985,000

2005 SCHOOL BUILDING AND SITE BONDS

| <u>DUE DATE</u> | <u>INTEREST RATE</u> | <u>PRINCIPAL REQUIREMENT</u> | <u>INTEREST PAYMENTS DUE</u> | | <u>TOTAL</u> |
|-----------------|--------------------------|----------------------------------|------------------------------|--------------------|---------------------|
| | | | <u>NOVEMBER 1</u> | <u>MAY 1</u> | |
| 2006-2007 | 3.000% | \$70,000 | \$142,331 | \$142,330 | \$354,661 |
| 2007-2008 | 3.000% | 85,000 | 141,280 | 141,281 | 367,561 |
| 2008-2009 | 3.000% | 90,000 | 140,005 | 140,006 | 370,011 |
| 2009-2010 | 3.000% | 115,000 | 138,656 | 138,656 | 392,312 |
| 2010-2011 | 3.125% | 125,000 | 136,931 | 136,930 | 398,861 |
| 2011-2012 | 3.200% | 125,000 | 134,977 | 134,978 | 394,955 |
| 2012-2013 | 3.300% | 130,000 | 132,977 | 132,978 | 395,955 |
| 2013-2014 | 3.400% | 135,000 | 130,833 | 130,832 | 396,665 |
| 2014-2015 | 3.500% | 145,000 | 128,538 | 128,537 | 402,075 |
| 2015-2016 | 4.250% | 145,000 | 126,000 | 126,000 | 397,000 |
| 2016-2017 | 4.250% | 155,000 | 122,919 | 122,919 | 400,838 |
| 2017-2018 | 4.250% | 160,000 | 119,625 | 119,625 | 399,250 |
| 2018-2019 | 4.250% | 170,000 | 116,225 | 116,225 | 402,450 |
| 2019-2020 | 4.250% | 175,000 | 112,613 | 112,612 | 400,225 |
| 2020-2021 | 4.250% | 185,000 | 108,894 | 108,894 | 402,788 |
| 2021-2022 | 4.000% | 195,000 | 104,963 | 104,962 | 404,925 |
| 2022-2023 | 4.000% | 215,000 | 101,062 | 101,063 | 417,125 |
| 2023-2024 | 4.125% | 630,000 | 96,762 | 96,763 | 823,525 |
| 2024-2025 | 4.125% | 650,000 | 83,768 | 83,769 | 817,537 |
| 2025-2026 | 4.200% | 650,000 | 70,363 | 70,362 | 790,725 |
| 2026-2027 | 4.250% | 650,000 | 56,713 | 56,712 | 763,425 |
| 2027-2028 | 4.500% | 650,000 | 42,900 | 42,900 | 735,800 |
| 2028-2029 | 4.350% | 650,000 | 28,275 | 28,275 | 706,550 |
| 2029-2030 | 4.350% | 650,000 | 14,137 | 14,138 | 678,275 |
| <u>TOTAL</u> | | <u>\$6,950,000</u> | <u>\$2,531,747</u> | <u>\$2,531,747</u> | <u>\$12,013,494</u> |



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

July 27, 2006

To the Board of Education of
Bad Axe Public Schools

In planning and performing our audit of the financial statements of Bad Axe Public Schools for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Bad Axe Public Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2006, Bad Axe Public Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

FUTURE ISSUES

1. MDE Changes Enforcement of Budgeting Act

The Michigan Department of Education (MDE) recently notified all Michigan School Districts that it was implementing changes in its enforcement of the Uniform Budgeting and Accounting Act. From their perspective, MDE is making this policy change in an effort to elevate awareness of the importance of proper budgeting and the need for district procedures to be in place to detect budget violations. MDE has not aggressively pursued these violations in past years, but has stated their intention to change that policy retroactively to the 2004-05 fiscal year. For that year, the Department has indicated that they are only focusing on the General Fund and will only act upon *Total Expenditures* violations that exceed 1% of the Total Expenditures budget and *Total Other Financing Uses* violations that exceed 1% of the Total Other Financing Uses budget.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (overspending your budget)
- Ending the fiscal year with a deficit (negative fund balance), and
- Adopting a budget that, when implemented, would put the district in a deficit.



Bad Axe Public Schools

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FUTURE ISSUES (Continued)

- The Department is also currently considering that a violation of the Act also includes the situation where the district did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved by the school board.

Amending your budget before June 30 of each year is the main way to avoid receiving a violation letter from the Department.

2. GASB 45

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Bad Axe Public Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

3. Cash Management of Federal Grants

The advance provisions of the Cash Management Improvement Act (CMIA) requires that advances be limited to three days cash needs. The Michigan Department of Education will no longer allow thirty day cash advances for ongoing programs.



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A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Bad Axe Public Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lewis & Knopf PC
LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS